

Message Text

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C O N F I D E N T I A L KINGSTON 4120

E.O. 11652: GDS

TAGS: ECON, EMIN, JM, US

SUBJECT: ALCOA-GOJ AGREEMENT SIGNING SET FOR OCTOBER 6?

1. ALCOA MINERALS OF JAMAICA MANAGING DIRECTOR PAUL CROUCH TOLD EMBOFF IN CONFIDENCE SEPTEMBER 23 THAT ALCOA AND THE JAMAICAN GOVERNMENT EXPECT TO SIGN AGREEMENT ON OCTOBER 6 UNDER WHICH:

A. GOJ WILL BUY BACK FROM ALCOA MINERALS ALL LANDS PRESENTLY OWNED BY ALCOA MINERALS IN JAMAICA WHICH ARE NOT PRESENTLY BEING MINED FOR BAUXITE LESS RPT LESS SUCH PORTION OF ALCOA MINERAL'S PRESENT LANDS WHICH CONSTITUTE A FIVE-YEAR RESERVE. AS BAUXITE IS MINED, THE GOJ WILL CONTINUE TO MAKE AVAILABLE TO ALCOA MINERALS WHATEVER LAND IS REQUIRED TO MAINTAIN A FIVE-YEAR RESERVE.

B. THE SUM RECEIVED BY ALCOA MINERALS WILL BE USED TO ESTABLISH AN EQUITY HOLDING IN A JOINT VENTURE BETWEEN ALCOA AND THE GOJ FOR THE PRODUCTION OF ALUMINA. IT IS PRESENTLY ESTIMATED THAT THE GOJ EQUITY IN THE JOINT

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VENTURE WILL BE 5-6 PERCENT. THERE WILL BE

A SEVEN-MEMBER BOARD OF DIRECTORS; TWO OF THE DIRECTORS WILL BE NOMINEES OF THE JAMAICAN GOVERNMENT.

C. THE JAMAICAN EQUITY IN THE JOINT VENTURE CAN BE INCREASED IN PROPORTION TO THE GOJ'S FURTHER EQUITY INVESTMENT IN ADDITIONAL PLANT CAPACITY. AS CROUCH PUT IT, IF THE PRESENT 500,000 TON CAPACITY OF ALCOA MINERALS CLARENDON ALUMINA PLANT WERE EXPANDED TO 800,000 AS A RESULT OF GOJ INVESTMENT, THE JAMAICAN SHARE WOULD BE 3/8 (37.5 PERCENT) (HOW THE ORIGINAL 5-6 PERCENT IS TO BE FACTORED IN WAS NOT MADE CLEAR. SINCE THE JAMAICAN CONTRIBUTION TO THE ORIGINAL CAPITAL IS, IN ESSENCE, A GIFT FROM ALCOA, THE SUBSEQUENT CHANGES IN THE SHARE OF OWNERSHIP MAY BE CONTROLLED BY THE GOJ'S REAL CONTRIBUTION.)

D. ALTHOUGH THE AGREEMENT IS SCHEDULED TO BE SIGNED ON OCTOBER 6, THE EFFECTIVE DATE WILL BE THAT DAY ON WHICH ALCOA MINERALS CERTIFIES TO THE JAMAICAN GOVERNMENT THAT THE CLARENDON ALUMINA PLANT (DAMAGED IN AN EXPLOSION ON JULY 6, 1976) IS AGAIN IN FULL OPERATION. MOREOVER, ENABLING LEGISLATION MUST ALSO BE ENACTED, BUT THIS POSES NO PROBLEM.

E. WHATEVER INCREASES IN JAMAICAN EQUITY MAY OCCUR, ALCOA WILL KEEP EFFECTIVE CONTROL OF THE JOINT VENTURE UNDER A MANAGEMENT CONTRACT.

2. OF CRITICAL IMPORTANCE TO ALCOA, THE AGREEMENT WILL BIND THE GOJ TO A 7 1/2 PERCENT BAUXITE LEVY FOR EIGHT YEARS RUNNING FROM JANUARY 1, 1976. (IT IS THIS COMMITMENT WHICH MAY BE THE EFFECTIVE -- IF NOT FORMAL -- CONSIDERATION FOR THE GOJ'S INITIAL EQUITY IN THE JOINT VENTURE.)

3. WHILE SOME FINAL DETAILS REMAIN TO BE WORKED
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OUT -- A SMALL PARTY FROM PITTSBURGH IS DUE IN NEXT WEEK TO SORT THEM OUT -- CROUCH'S OPTIMISM IS SHARED BY HIS HOME OFFICE. DURING THE EMBOFF'S VISIT TO THE ALCOA OFFICE, A CONFERENCE CALL CAME IN FROM PITTSBURGH AND MUCH OF IT DEALT WITH ARRANGEMENTS FOR AN OCTOBER 6 SIGNING.
GERARD

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